



GOVERNOR'S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE CONTRACTING WORKING GROUP MINUTES

Tuesday, November 20, 2012

1:30 PM

1820 W. Washington, St. #200, Conference Room 101
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on November 20, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

Members Present

Michael Hunter (Chair)
Tom Belshe
Miguel Teposte
John Olsen

Steve Barela
Linda Stanfield
Vince Perez
Senator John McComish
Representative Rick Gray

Members Absent

Keely Hitt
Lynne Herndon

Kevin McCarthy

Staff Present

Lindsay Scornavacco, Governor's Office
Chris McIsaac, Governor's Office

1) Call to Order

Michael Hunter called the meeting to order at 1:30 p.m.

2) Update on Analytical Framework for Transitioning from Contracting Taxes to Materials at Point of Sale

Craig McPike, the Contracting Working Group Chair, acknowledged that various groups have been working hard to simplify the system for taxpayers and administrators.

a) Presentation from Department of Revenue

Elaine Smith from the Department of Revenue gave a presentation analyzing the transition from contracting to materials tax.

b) Working Group Discussion and Public Comment

Mr. Hunter stated he appreciates the work the Department of Revenue has done on these estimates. He continued there are other areas that no one has data to analyze. While the numbers for county and city revenue sharing increase, the distribution city by city is unknown. The Task Force report will acknowledge these unknowns. Mr. Hunter stated this is the Task Force's 15th meeting and the Task Force anticipates having 17 meetings total. This experience is fairly unique and no other effort

has gone as wide and deep as this Task Force has on tax reform. He continued the Task Force owes Elaine Smith and the Department of Revenue a debt of gratitude for their work on this analysis.

John Olsen asked which exemptions were going to be eliminated.

Ms. Smith stated she had mentioned removing deductions such as impact fees and sub contractor income.

Mr. Olsen asked if Ms. Smith's estimates included an increase in revenue assuming a federal bill passes.

Ms. Smith answered she did not take her estimates that far.

Miguel Teposte asked Ms. Smith to elaborate on how she came up with her noncompliance percentage.

Ms. Smith stated the compliance level for the 1999 study was 43%. She continued she believes this is a high estimate, so the 31% she used is a measurable midpoint between a high and a low end.

Tom Belshe asked if the 31% is against taxpayers or dollars.

Ms. Smith answered dollars.

Mr. Belshe raised the issue of having several high dollar paying contractors that get a lot of attention and pay a large percentage of construction contracting. He continued he is concerned about applying that percentage to dollars opposed to taxpayers.

Ms. Smith stated applying that number to taxpayers would not be the correct way to approach the data because the value of contractors varies greatly from one to the next.

Mr. Belshe responded the number is skewed by looking at the entire dollar amount. He continued he greatly appreciates Ms. Smith's work and he looks forward to taking a deeper look at the numbers.

Mr. Hunter stated there are numerous opportunities for noncompliance. The final report will not state 31% is the correct number, but will say it is a number that was used as an estimate. He continued he can guarantee the actual rate of noncompliance is higher or lower than 31%. Mr. Hunter stated the Task Force's concern is what creates the opportunities for noncompliance.

Jeff Williams from Silver Williams & Ford, LLC asked Ms. Smith to elaborate on how she determined the 41% she used for materials.

Ms. Smith stated that number came from the 1999 study and that it has consensus in the industry. She continued she looked at more recent evaluations and they are all in that range.

Barb Dickerson from Deloitte Tax, LLP stated that during the 1999 study they looked at all types of contractors and materials percentages and then extrapolated numbers by types of contractor.

Mark Barnes from the County Supervisors Association asked if the 41% in Ms. Smith's presentation was applied to the total value of construction contracts last year.

Ms. Smith answered no. The percentage was applied to a new value estimate of 2013 contracts.

Mr. Belshe commented the group quickly passed over local sales tax rates. There needs to be some way to soften the transition to a materials tax so that holes are not being punched in budgets.

Ms. Smith responded that she understands the difference between revenue sharing and state taxes, but there will be \$35 million more dollars in revenue sharing for the cities.

Mr. Belshe stated the cities would like to see it reflected in the report that how this money is distributed is still an issue that needs to be tackled.

Mr. McPike stated the cities have legitimate concerns and that everyone is working to find out what methodology will best help the cities. He continued that if anyone from the audience has good ideas they should contact him or Mr. Belshe.

Mr. Hunter stated the group does not know household to household what the impacts will be of tax reform, but the Task Force needs to do what is right. Revenues will be increasing at various levels of government to do what needs to be done. The Governor charged the Task Force to look for methods of simplification and clearly that means going to a materials based tax. He stated that on the other hand the Task Force would not be doing the Governor, Speaker or President much service if they did not relay the possible political and economic impacts.

3) Working Group Final Thoughts and Comments

Mr. McPike stated it has been a pleasure to work through such an open process. He encouraged anyone with more information to contact him following the working group meeting. He stated this has been an excellent effort toward putting the state of Arizona in a better position and thanked Mr. Hunter and the Task Force for allowing him to chair the working group.

a) Working Group Discussion and Public Comment

Mr. Hunter thanked Mr. McPike for his service. He continued that everyone should mark December 13th on their calendars as the date for the anticipated final task force meeting. He also thanked the League of Arizona Cities and Towns for the use of their conference room through this process.

4) Adjournment

Mr. Hunter adjourned the meeting at 2:15 p.m.